

Message Text

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PAGE 01 CARACA 05601 01 OF 02 021510Z

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AF-06 EA-06 EUR-12 NEA-10

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 IO-10 (ISO) W
----- 109598

R 021230Z JUN 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8921

INFO AMEMBASSY ABU DHABI

AMEMBASSY BAGHDAD

AMEMBASSY BEIRUT

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY PARIS

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

AMCONSUL DHAHRAN

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 5601

EO 11652: GDS

TAGS: ENRG VE

SUBJ: VENEZUELAN POSITION AT FORTHCOMING OPEC MEETING IN GABON

SUMMARY. GOV MINES MINISTER HERNANDEZ REACTED TO

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PAGE 02 CARACA 05601 01 OF 02 021510Z

SECRETARY KISSINGER' STATEMENT OPPOSING ANOTHER OIL

PRICE INCREASE BY DEFENDING OPEC'S RIGHT TO MAKE IT'S OWN DECISIONS. THE MINISTER ANNOUNCED GOV SUPPORT FOR DISCUSSION OF POSSIBLE OIL PRICE INCREASES AT THE GABON MEETING, BUT SAID THE ARGUMENTS IN FAVOR OF AN INCREASE MUST BE VERY CONVINCING. THE VENEZUELAN SITUATION IS COMPLICATED BY A LARGE INVENTORY OF PRODUCTS AND DECLINING REFINERY PRODUCTION, DUE TO THE MARKET SLACK AND UNCOMPETITIVE PRICES. THE GOV MAY ATTEMPT TO STIMULATE INCREASED REFINING BY LOADING WHATEVER OPEC PRICE INCREASE IS DECIDED ENTIRELY ON TO CRUDE EXPORTS, WHILE PERHAPS ADJUSTING DOWNWARD THE TAX EXPORT VALUES ON NON-COMPETITIVE PRODUCTS. VENEZUELA, FOR STATUS REASONS, WILL ATTEMPT TO MAINTAIN OIL PRODUCTION AND EXPORTS ABOVE 2 MILLION B/D. END SUMMARY.

1. GOV MINES AND HYDROCARBONS MINISTER VALENTIN HERNANDEZ, SPEAKING TO REPORTERS ON MAY 28, REACTED TO SECRETARY KISSINGER'S STATEMENT THAT THE U.S. WOULD BE OPPOSED TO ANOTHER OIL PRICE INCREASE WITH THE COMMENT - "DECISIONS THAT ARE MADE BY OPEC ARE MADE WITHOUT CONSULTING ANYONE OTHER THAN ITS MEMBERS." HE SAID FURTHER THAT "WE IN OPEC NEVER MAKE SENSELESS DECISIONS. OUR MEASURES AND AGREEMENTS ARE THOSE OF SOVEREIGN STATES AND, IN THIS REGARD, WE WILL NOT CHANGE OUR ATTITUDE."

2. WHILE FINANCE MINISTER HURTADO REFUSED TO ADDRESS HIMSELF TO THE VENEZUELAN POSITION WITH RESPECT TO AN OPEC PRICE INCREASE, MINES MINISTER HERNANDEZ, PRIOR TO HIS MAY 28 STATEMENT, HAD QUOTED THE STANDARD OPEC LINE THAT THE OPEC TECHNICAL COMMISSION'S CONCLUSION AS TO WHETHER INDUSTRIALIZED NATIONS HAVE HARDENED INFLATION WILL BE THE "PRINCIPAL POINT OF REFERENCE." HERNANDEZ ALSO CONCLUDED PUBLICLY IN YET ANOTHER STATEMENT LAST WEEK THAT INFLATION HAD NOT BEEN BROUGHT UNDER CONTROL AND THEREFORE, "WE MUST DECIDE IF THERE ARE ENOUGH ELEMENTS TO LEAD US NOT TO RESPECT THE SEPTEMBER DATE." THE INFERENCE IS CLEAR HERE THAT A PRICE INCREASE COULD BE IN THE OFFING EARLIER THAN OCTOBER. THUS, A RE-AFFIRMATION OF THE NINE-MONTH PRICE FREEZE COMING FROM THE GABON MEETING
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PAGE 03 CARACA 05601 01 OF 02 021510Z

COULD BE PRESENTED AS A FURTHER CONCESSION TO THE CONSUMERS.

3. ACTING VICE MINISTER OF MINES HERNAN ANZOLA WAS ASKED IF VENEZUELA CONCURS WITH THE STATEMENT OF THE SHAH OF IRAN THAT OIL PRICES WILL HAVE TO BE ADJUSTED IN SEPTEMBER TO OFFSET THE DOLLAR VALUE DECLINE. ANZOLA REPLIED THAT "THIS HAS BEEN A

VENEZUELAN THESIS" AND THAT VENEZUELA WAS ONE OF THE FIRST OPEC MEMBERS TO AGREE WITH THE ALGERIAN PROPOSAL TO INCLUDE A REVIEW OF OIL PRICES ON THE GABON AGENDA. MINISTER HERNANDEZ ATTEMPTED LATER TO DISAVOW THE ALGERIAN-VENEZUELAN LEADERSHIP ROLE ON THIS POINT BY TELLING REPORTERS THAT "IN OPEC, MOVEMENTS SHOULD NOT BE ASSIGNED A FIRST AND LAST NAME. WE DO EVERYTHING JOINTLY."

4. ON THE OTHER HAND, NO VENEZUELAN OFFICIAL HAS FLATLY STATED THAT A DECISION HAS BEEN TAKEN TO PUSH FOR HIGHER OIL PRICES. HERNANDEZ OBSERVED THAT ARGUMENTS IN FAVOR OF AN INCREASE "MUST BE VERY CONVINCING" IN VIEW OF THE PRONOUNCED REDUCTION IN WORLD DEMAND.

5. COMMENT. THE DECISION NOT TO ENDORSE A PRICE INCREASE PUBLICLY IS STANDARD POLICY HERE. THE GOV WOULD PREFER TO LET SOME OTHER OPEC COUNTRY, OR THE ORGANIZATION AS A WHOLE, TAKE THE HEAT FOR A PRICE INCREASE DECISION, BEING ESPECIALLY WARY OF U.S. REACTION. IN FACT, THE GOV IS FACED WITH A DILEMMA. IT WOULD WELCOME ADDITIONAL REVENUE, OR MAINTENANCE OF THE PRESENT LEVEL OF REVENUE AT A LOWER OIL PRODUCTION RATE, IF THIS WOULD BE THE ONLY RESULT OF A NEW PRICE INCREASE. REALISTICALLY, HOWEVER THE GOV KNOWS THAT ANOTHER PRICE INCREASE COULD FURTHER ERODE VENEZUELA'S COMPETITIVE POSITION AS AN EXPORTER OF REFINED PRODUCTS.

6. VENEZUELA IS UNIQUE AMONG OPEC MEMBERS IN THAT IT EXPORTS (AND TAXES) OVER ONE-THIRD OF ITS OIL DIRECTLY AS PRODUCTS. A FURTHER LARGE PROPORTION OF ITS CRUDE IS REFINED IN THE CARIBBEAN BEFORE
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PAGE 04 CARACA 05601 01 OF 02 021510Z

REACHING ITS PRINCIPAL DESTINATION- THE U.S. EAST COAST. UNDER PROJECTED PRODUCTION LEVELS OF BETWEEN 2.0 AND 2.5 MILLION B/D, VENEZUELA HAS THE CAPACITY TO REFINE OVER FIFTYPERCENT OF ITS EXPORTS. THE CHASE MANHATTAN "PETROLEUM SITUATION" REPORT OF APRIL 30 GIVES STATISTICAL EVIDENCE THAT CRUDE OIL IS SUPPLANTING REFINED PRODUCTS AT A DRAMATIC RATE IN THE U.S. IMPORT MARKET. CRUDE OIL IMPORTS WERE UP 63.4 PERCENT FOR THE FIRST QUARTER OF 1975, WHILE REFINED PRODUCTS WERE DOWN 17.3 PERCENT, ACCORDING TO THE REPORT.

7. IN ADDITION TO THE DECISION BY U.S. REFINERS TO MAXIMIZE CRUDE IMPORTS AND REDUCE PRODUCT IMPORTS, VENEZUELA IS PRESENTLY CONFRONTED WITH THE CLAIM

OF THE OIL COMPANIES THAT THE GOV HAS TAXED ITSELF
OUT OF THE INTERNATIONAL MARKET FOR LOW SULFUR FUEL
OIL. THIS ITEM NORMALLY ACCOUNTS FOR APPROXIMATELY
20 PERCENT OF REFINERY OUTPUT. A CREOLE COMPANY

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PAGE 01 CARACA 05601 02 OF 02 021512Z

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ACTION EB-07

INFO OCT-01 ISO-00 AF-06 ARA-06 EA-06 EUR-12 NEA-10

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 IO-10 /131 W

----- 016365

R 021230Z JUN 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8922

INFO AMEMBASSY ABU DHABI

AMEMBASSY BAGHDAD

AMEMBASSY BEIRUT

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C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 5601

OFFICAL TOLD THE EMBASSY THAT THE TAX PAID COST OF

LOW SULFUR FUEL OIL IS \$3.71 PER BARREL MORE THAN
FOR HIGH SULFUR FUEL OIL. AS A RESULT, THE DE-
SULFURIZATION UNITS ARE DOWN TO PROCESSING ONLY
35,000 B/D OF THIS PRODUCT OUT OF A CAPACITY OF
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PAGE 02 CARACA 05601 02 OF 02 021512Z

180,000 AT CREOLE'S AMUAY REFINERY. TOTAL REFINERY
RUNS HAVE BEEN REDUCED TO 310,000 B/D,
WHICH IS LESS THAN 50 PERCENT OF AMUAY CAPACITY,
AND CREOLE PRESENTLY HAS 25 MILLION BARRELS OF
PRODUCT IN STORAGE, AT A TIME OF YEAR WHEN STOCKS
ARE NORMALLY LOW.

8. THUS, IF OPEC DICTATES A PRICE INCREASE, GOV
STRATEGY MAY WELL BE TO NARROW THE TAX GAP BETWEEN
CRUDE AND PRODUCTS BY PLACING THE PRICE INCREASE
ENTIRELY ON CRUDE EXPORTS. THE INTENTION WOULD BE
TO FORCE OIL COMPANIES TO INCREASE THEIR REFINERY
RUNS LOCALLY, AND REVERSE THE PRESENT TREND OF
MORE CRUDE LIFTINGS. WHILE ANNOUNCING INCREASED
TAX EXPORT VALUES ON CRUDE THAT WOULD RESULT IN AN
AVERAGE TAX INCREASE OF THE AMOUNT SET BY OPEC,
THE GOV COULD FOLLOW ITS JANUARY PRECEDENT OF AD-
JUSTING DOWNWARD THE PRODUCT TAX EXPORT VALUES WHICH
ARE CURRENTLY OUT OF LINE WITH THE MARKET.
THERE IS ALSO THE POSSIBILITY THAT THE GOV WILL GAMBLE THAT
PRODUCTS PRICES WILL BEGIN TO FIRM UP AGAIN NEXT FALL.
AT THE MOMENT, THE MINISTRY'S REASON FOR NOT REDUCING THE LOW
SULFUR FUEL OIL TAX PRICE ASIDE FROM THE USUAL POLITICAL
SENSITIVITY TO SUCH ACTIONS, IS THE BELIEF
THAT WITH THE MARKETING SEASON NOW ENDED, PRODUCTS
WOULD NOT MOVE OUT EVEN AT A LOWER PRICE.

9. OIL COMPANY CONTACTS TEND TO AGREE THAT PLACING
THE TAX INCREASE ENTIRELY ON CRUDE EXPORTS IS THE
CORRECT STRATEGY TO STIMULATE INCREASED REFINING.
THEY POINT OUT THAT, AS REFINERY PRODUCTION DECLINES,
THE COST OF PRODUCTION INCREASES DUE TO THE
FIXED COST FACTOR. THEREFORE, IF REFINERY PRO-
DUCTION IS NOT INCREASED, VENEZUELAN PRODUCTS
COULD BECOME EVEN LESS COMPETITIVE ON THE MARKET.
A MINES MINISTRY OFFICIAL POINTED OUT THAT EVEN THOUGH
THE GOV RECEIVES LESS TAX ON AVERAGE FROM REFINED
PRODUCTS, THE EMPLOYMENT GENERATED BY THE REFINING
INDUSTRY AND OTHER ECONOMIC BENEFITS DERIVED FROM IT
GIVE THE REFINERY INDUSTRY A HIGHER PRIORITY THAN
CRUDE EXPORTS.
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PAGE 03 CARACA 05601 02 OF 02 021512Z

10. HOWEVER VENEZUELA IMPLEMENTS AN OIL PRICE INCREASE,
ONE FACGOR THAT WILL BE KEPT IN MIND IS THE DESIRE
ON THE PART OF THE GOV TO MAINTAIN PRODUCTION AND EXPORT
LEVELS ABOVE 2 MILLION B/D. THIS IS MOTIVATED BY
POLITICAL CONSIDERATIONS. IN ORDER TO MAINTAIN
STATURE IN OPEC CIRCLES, THE THIRD WORLD, AND IN ITS
OWN HEMISPHERE, VENEZUELA MUST CONTINUE TO BE A BIG LEAGUE OIL
EXPORTER. TO THIS END, THE GOV WILL CAREFULLY REVIEW ALL THE
RAMIFICATIONS OF ANOTHER OIL PRICE INCREASE BEFORE CASTING
ITS VOTE. END COMMENT.
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